COUNCIL AGENDA: 11-15-05
ITEM: 6.2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: William F. Sherry, A.A.E.
Katy Allen
Larry D. Lisenbee

SUBJECT: SEE BELOW

DATE: 11/10/05

Approved [signature] Date 11/10/05

COUNCIL DISTRICT: Citywide

SUBJECT: REPORT ON RECOMMENDED REVISIONS TO THE IMPLEMENTATION OF THE AIRPORT MASTER PLAN, REQUEST FOR AUTHORIZATION TO PREPARE, FOR COUNCIL CONSIDERATION, PROPOSED ACTIONS NECESSARY TO IMPLEMENT THE RECOMMENDATIONS, AND APPROVAL OF COMMON-USE GATE MANAGEMENT FOR TERMINAL OPERATION

RECOMMENDATION

1. Accept this status report on recommended revisions to the implementation of the Airport Master Plan.

2. Authorize staff to prepare and return to Council with proposed amendments to the Airport Master Plan, project design/construction agreements, and other actions as necessary to implement the recommended development program revisions.

3. Approval of a common-use gate management strategy for the Airport terminal operation.

4. Adoption of the following Appropriation Ordinance Amendments in the Airport Renewal and Replacement Fund:
   a. Establish the Public Parking appropriation in the amount of $350,000.
   b. Establish the Terminal Area Development appropriation in the amount of $700,000.
   c. Establish the West Side Airfield Reconstruction appropriation in the amount of $95,000.
   d. Decrease the Relocate Parking Control Buildings appropriation in the amount of $1,145,000.

5. Adoption of the following Appropriation Ordinance Amendments in the Airport Revenue Bond Improvement Fund:
    a. Establish the Rental Car Garage Design appropriation in the amount of $350,000.
    b. Decrease the Ending Fund Balance by $350,000.

6. Accept recommendation that preliminary planning for the Terminal Area Development projects indicates that utilizing the Design-Build procurement process may save money or result in faster project completion than if the City used a procurement process involving its normal competitive bidding procedures, and direct staff to conduct outreach with the Design-Build stakeholder group prior to returning to Council for approval of the Request for Proposals.

BACKGROUND

The Master Plan for Norman Y. Mineta San José International Airport, adopted in 1997 and amended twelve times to date, consists of approximately 70 facility improvement projects designed to adequately accommodate commercial aviation demand originally projected for the year 2010. Beginning in 2001, however, changes in economic conditions and security-related requirements affecting the aviation industry have adversely impacted the scope, scheduling, and financing of planned airport capital improvements.

In September, at the Administration's initiative, a 3-day workshop with airline representatives and industry consultants was held to review implementation plans for the Airport capital development program, and to help formulate recommendations to better align Airport development with current economic assumptions. On October 4, 2005, Council approved the Administration's request to impose a 45-day moratorium on bidding projects related to the North Concourse, to allow time for analysis of the conceptual Master Plan implementation revisions developed at the staff/airline workshop, with staff reporting back to Council on November 15 with a status report and recommendations.

ANALYSIS

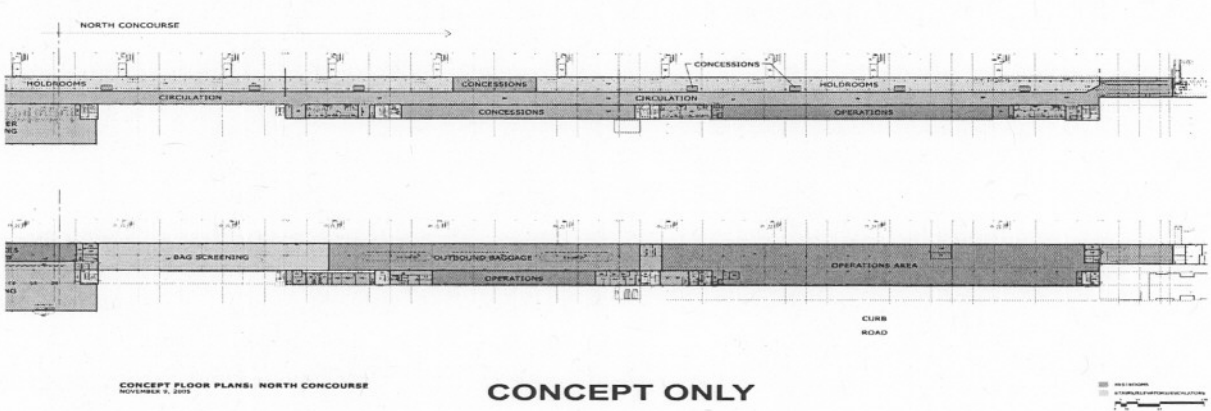
At the September workshop, two key findings presented by the City's aviation financial consultant (Ricondo & Associates) were discussed and accepted. First, the air passenger demand volume originally projected for the year 2010 (17.6 million) is now projected to be reached in the year 2017. Second, in order to retain reasonable airline rates and charges, continued implementation of the Master Plan needs to be limited to $1.2-$1.5 billion. A team of staff, consultants, and airline representatives have since worked on formulating a set of potential development program revisions that is responsive to these two key findings yet still achieves the City's development and customer service objectives for the Airport.

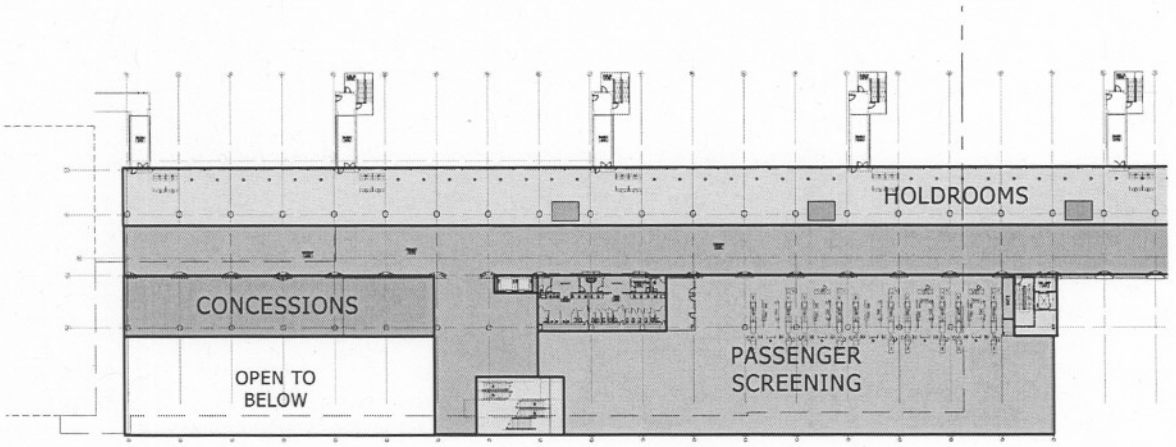
A. Conceptual Development Program Revisions

The set of potential revisions to the scope and timing of facility improvements are conceptually illustrated in the attached exhibits. The most significant changes would be to extend the Airport Master Plan horizon year out to 2017 (from 2010) and to modify the Terminal Area Development Program, currently calling for a single centralized terminal building with double-level roadway and multi-story garages for public parking and consolidated rental car facilities. Instead, the terminal area improvements would comprise a hybrid centralized/unit terminal complex with a single-level roadway and a combination of surface lot and garage parking for the public and rental car facilities. Key components of the terminal area modifications would be the expansion/remodel of Terminal A, the accelerated removal of Terminal C, and interim use of the former FMC parcel (currently under lease to the Airport from the City of San José Financing Authority) for rental car storage. More descriptive information on these potential program revisions is presented as follows.

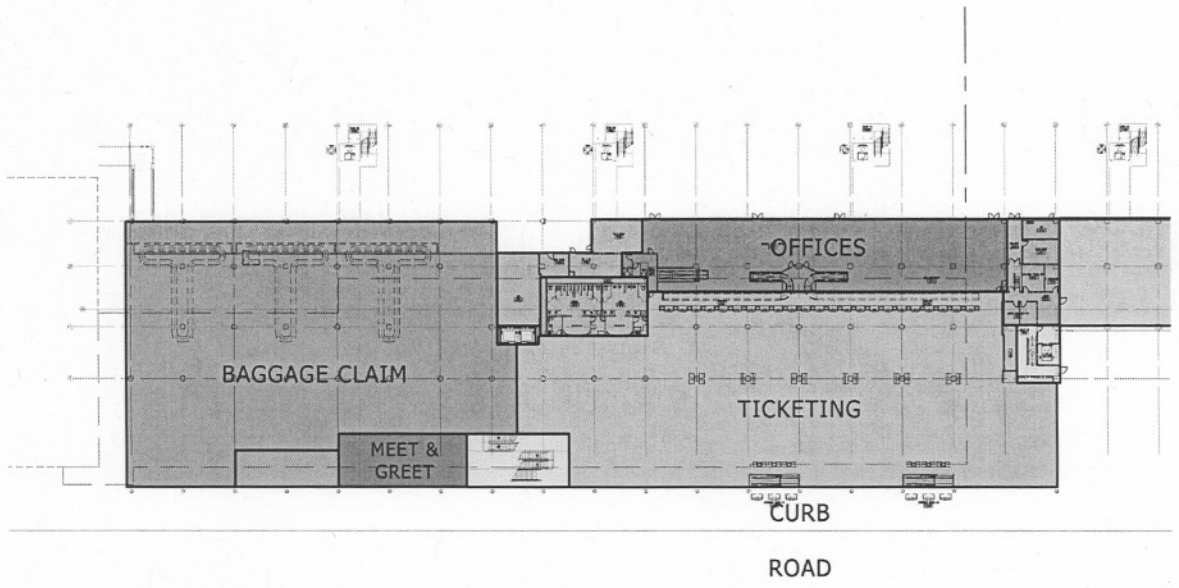
Note: Graphics provided within this memo are intended to facilitate understanding of the type and purpose of the proposed projects proposed. These graphics are conceptual only, and will most likely change as the design process continues and the projects become more refined.

North Concourse/Terminal B: Ongoing design and construction would proceed, but would be modified to allow the building to function as a full-service "Terminal B". The modifications include an extension of the building to the south; displacement of the north end of existing Terminal C, to house passenger processing functions (ticket lobby, security checkpoints, baggage claim). Placing these passenger processing facilities at the south end of new "Terminal B" would be close to the existing Terminal C public parking lot and future garage facilities serving the terminal. It is anticipated that this project can be delivered in the second quarter of 2008. Please refer to the conceptual graphics below and on the next page.





SECOND LEVEL FLOOR PLAN

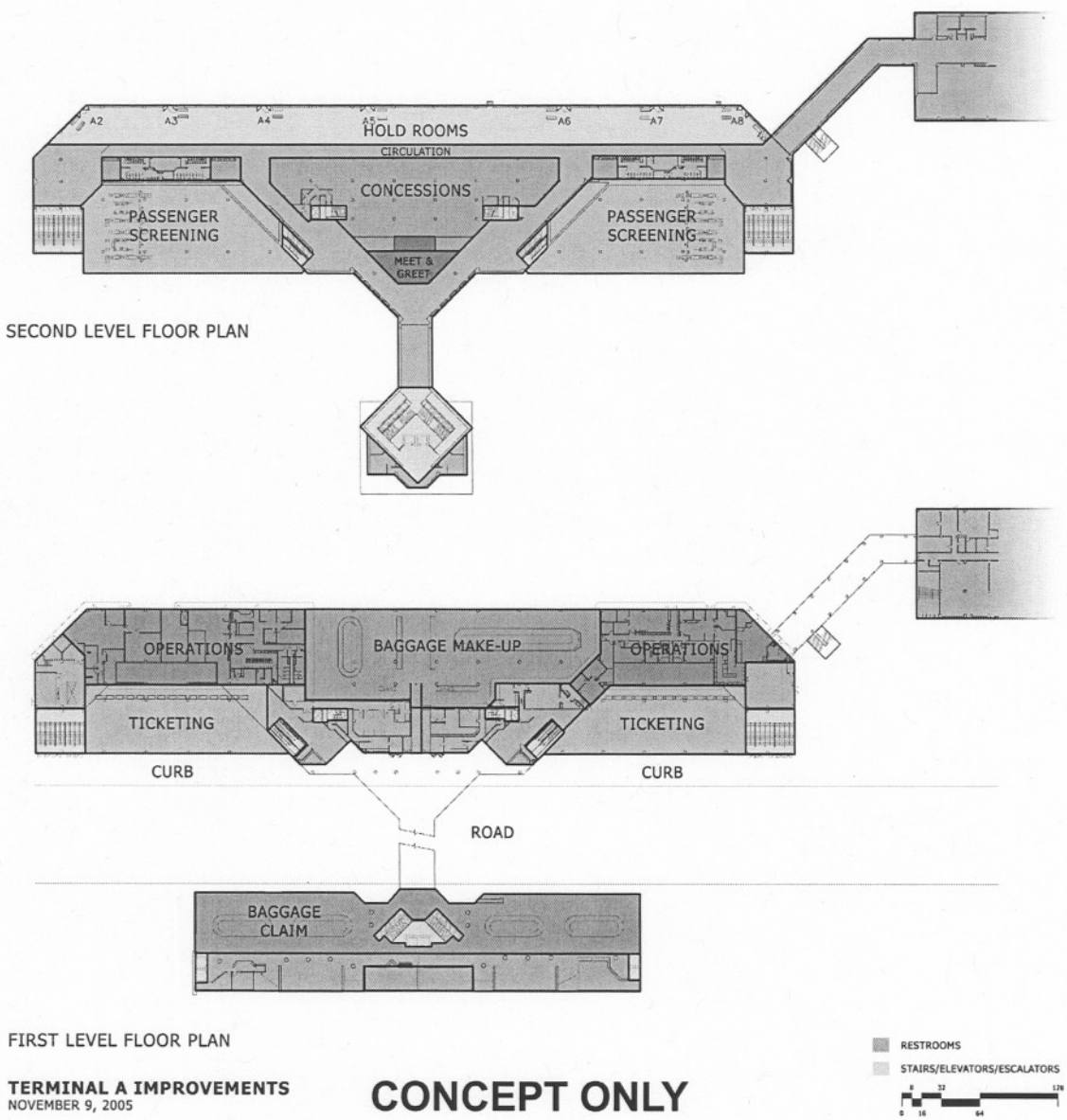


FIRST LEVEL FLOOR PLAN

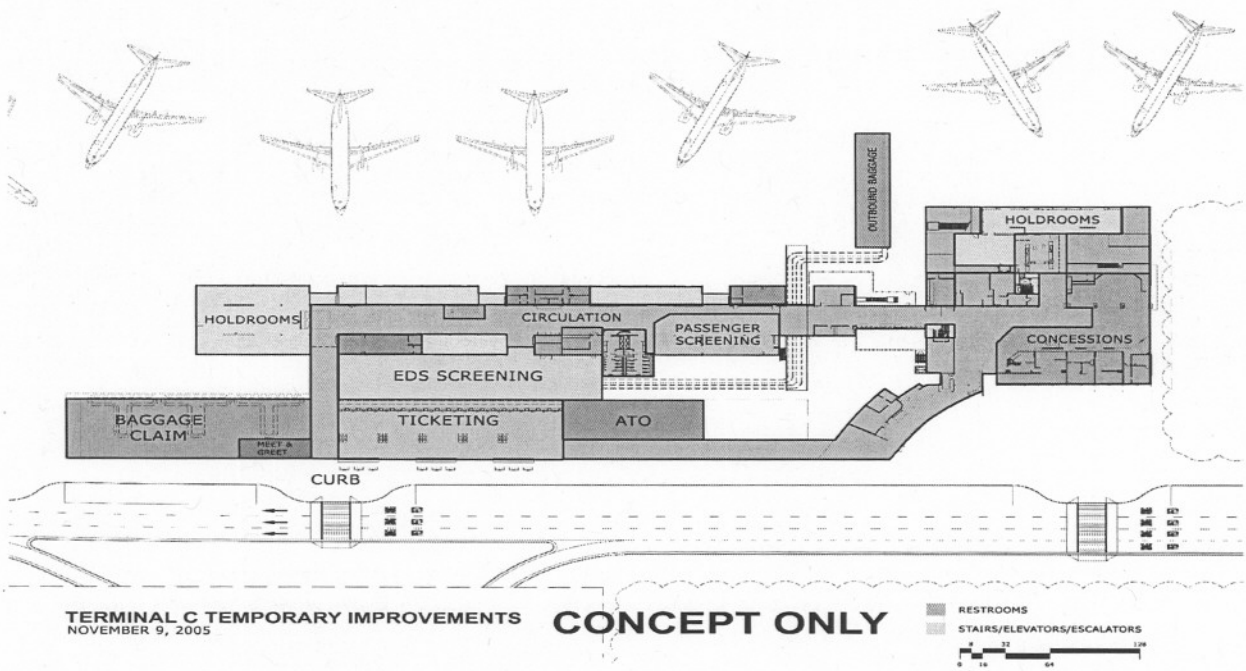
CONCEPT FLOOR PLANS: TERMINAL B
NOVEMBER 9, 2005

CONCEPT ONLY

Terminal A: A major new project would be to expand and remodel Terminal A to improve passenger processing and circulation. The front lobby would be built out to relocate and add more ticket counter space at ground level. Passengers would proceed up to the existing second-story ticket lobby which would be converted into an expanded security screening area and pre-security screening concession space. The existing Federal Inspection Services facility for international arrivals would remain in its existing location rather than being relocated into a future Central Terminal. The Terminal A Garage would remain in use as a premium public parking facility. It is anticipated that this project can be delivered in the first quarter of 2009.



Terminal C: In order to construct the expanded North Concourse/Terminal B, the north end of existing Terminal C needs to be vacated and demolished. A modular structure would be installed on the east side of the Terminal C apron to temporarily replace the passenger processing facilities currently located in the north wing of Terminal C (Temporary Processing Center). Once the Terminal A and North Concourse/Terminal B construction is completed, all existing airlines in Terminal C would be relocated to the other terminals so that the remainder of existing Terminal C (lobby, mezzanine, south wing, west wing, and baggage claim wing) can be demolished. It is anticipated that the temporary facility would be placed into service in the third quarter of 2007, and would be used until Terminal B is opened in the first quarter of 2010.



Roadway Improvements: Removal of existing Terminal C would allow Terminal Drive to be widened and straightened to serve new terminal development and eliminate the confusing curves within which traffic must line up with particular lane destinations. Another roadway improvement would be a Terminal A "bypass" loop to allow traffic not destined for Terminal A to peel off from Airport Boulevard and onto Terminal Drive without having to navigate past Terminal A. These roadway improvements will be phased and delivered in schedules to serve the terminal and parking facilities included in the improvement program.

Terminal Expansion to 40 Gates: Upon completion of construction of the North Concourse/Terminal B and the demolition of Terminal C, the Airport would have 31 air carrier gates (comparable to existing facilities today). Expansion to 40 gates with the construction of Terminal B Phase 2, connected to the North Concourse/Terminal B, would begin on a demand-driven basis.

Rental Car & Short-Term Public Parking Garage: The existing Master Plan calls for a 14,000 stall parking garage in the vicinity of the proposed Central Terminal. This garage was intended to consolidate all Rental Car (RAC) and all premium short-term public parking facilities. The plan pre-dated the City's acquisition of the former FMC property

This recommendation proposes that rental car customer service areas be retained in a garage immediately across from the new Terminal B at the same 2,000 stalls included in the original program. Also, this garage will include facilities to clean and fuel cars, as well as provide for a limited amount of rental car overflow storage. Overflow storage that cannot be accommodated in the garage will be provided for at the former FMC property across from the east side of the airport. Construction of the rental car garage would begin as soon as the Northern portion of Terminal C has been demolished and the Terminal Drive improvements have been completed It is anticipated that this facility can be delivered within five years, and would not require the rental car industry to temporarily relocate to another location to allow for its construction.

Analysis of a public short term parking garage of approximately 2,200 stalls is ongoing, and is a subject of further discussion with the airlines. If financially feasible, this garage will be constructed with the rental car garage. If not, additional surface parking will be constructed in its footprint until such time that it is financially feasible.

Long-Term Public Parking: The current Master Plan relocates the airport's long-term parking from the west side of the Airport to a multi-story garage at the current rental car facilities site (just west of the Guadalupe River, across from terminal A). Staff recommends that this proposed garage be modified to a surface lot, providing 1,550 mid-cost parking spaces at nearer proximity to the Terminals. Spaces in the current long-term parking area would be designated "economy parking" and could provide a third, lower-cost tier of on-airport parking services that might prove more competitive to current off-airport parking facilities.

These potential development program revisions would reduce the estimated capital costs of Master Plan implementation by more than half, thereby supporting Master Plan objectives by retaining a competitive cost structure for the airlines. Moreover, the development program revisions would also significantly advance customer service objectives. For example: jet bridge

access to aircraft from all gates would be available sooner; additional public and rental car parking adjacent to the terminal complex would be available sooner; a simpler terminal roadway system would be provided sooner; and obsolete facilities such as existing Terminal C and the existing Terminal A ticket lobby would be replaced sooner, with state-of-the-art modern facilities.

B. Financial Considerations

A financial plan was prepared for the Airport to assess the feasibility of, and to develop a financially viable strategy for undertaking, the Airport's proposed development program. This financial plan includes the identification of specific funding sources; projections of revenues and expenses; development of a preferred strategy for use of passenger facility charges (PFCs); and identification of bonding requirements. Overall, the total capital program is estimated to cost $1.5 billion in future dollars through 2017. Staff anticipates that nearly half of these program costs will be funded with or supported by PFCs, Customer Facility Charges (CFCs), Federal grants, and other, third-party funding sources, with the remaining program amount to be supported solely by the issuance of General Airport Revenue Bonds, which are repaid through Airport revenues including parking, concessions and airline revenues.

The overall feasibility of the plan was based on the Airport's current business arrangement, and was measured by estimating the Airport's future airline cost per enplanement ("CPE" - a standard industry measure of how much it costs an airline to operate at an airport) and the City's ability to meet its Master Trust Agreement requirements. Based on the results of the financial analysis, the Program is projected to result in an airline CPE ranging from $8 to $13 in future dollars ($7 to $9 per enplanement in 2005 dollars.) This level of airline CPE is considered reasonable as compared to other comparable airports throughout the U.S. It will allow the Airport to offer updated facilities and improved customer service and remain competitive.

C. Common-Use Gate Management

In March 2005, when Council approved an amendment to the Airport Master Plan to increase the total size of future terminal buildings from a maximum of 1.075 million sq.ft. to a maximum of 1.70 million sq.ft., staff was directed to return to Council, with appropriate CEQA review and public outreach, for approval of the proposed strategy to provide for shared airline use of gates in terminal development and operation.

Historically, the City has leased most of the holdrooms and gates in the two terminal buildings to individual airlines either on an exclusive-use or preferential-use basis, which essentially provides for priority use and installation of proprietary equipment and corporate identity features. Under airline exclusive-use or preferential-use lease agreements with the City, holdrooms/gates can be used by other airlines through sublease agreements, subject to City approval, and through Airport administrative procedures to modify, reallocate or reassign gate uses to accommodate airline requests, if feasible, as required under federal regulations.

In recent years, as airlines have relinquished exclusive-use or preferential-use holdrooms/gates, Airport practice has been to convert those facilities to common-use (aka "shared-use") in order to

improve operational flexibility and efficiency. The ability to quickly respond to airline service increases/decreases, new airline entrants, and airline mergers and bankruptcies in today's deregulated aviation business environment has become an important customer service and resource management issue for airport operators. Of the Airport's current 32 airline gates, 12 are exclusive-use, 15 are preferential-use, and 5 are common-use, with several of the existing exclusive and preferential gates used by more than one airline.

With the Airport controlling the assignment of gates, changes in airline service would be more easily accommodated as opposed to the more cumbersome administrative procedures involved with adding or moving an airline to a gate already under lease for exclusive or preferential use. Managing all gates as common-use would be consistent with most other airports in the U.S. and the world that serve multiple airlines in common terminal buildings and with federal policy to foster airline competition as well as with the City's economic development objectives.

The designation of holdrooms/gates as exclusive-use, preferential-use, or common-use is unrelated to the concept of Airport capacity. Southwest Airlines has maintained a high utilization of the preferential gates it leases in Terminal A, whereas several airlines in Terminal C have maintained relatively low volumes, whether they operate out of exclusive, preferential, or shared gates. The size, layout, or method of gate management reflects the level of service and efficiency associated with accommodating demand. The common-use gate management strategy for the Airport has also been analyzed under CEQA in a "Fifth Addendum to the Airport Master Plan EIR" issued by the Director of Planning on April 6, 2005. The EIR Addendum, a copy of which is attached, concluded that approval of such a strategy would not alter, or add to, any of the environmental impacts previously identified in the Master Plan EIR/SEIR.

Operating all gates as common-use, therefore, is part of the Airport's strategy to manage its facilities in the most efficient manner to provide the best level of service to its users by evening out gate utilization and being able to more readily respond to fluctuations in airline schedules and number of airline operators. To support common-use of gates, design and construction of the North Concourse and future terminal facilities would include installation of infrastructure to allow for electronic signage, flight information displays, holdroom podiums, and boarding-pass reader equipment serving any airline. Council approval of the common-use gate management strategy would allow a proposed information technology procurement for the North Concourse/Terminal B development to be awarded (anticipated in January 2006).

D. Project Delivery Methods

As previously noted, the proposed conceptual revisions to the Airport Master Plan Development program consist of several key projects, to be constructed in phases. These key projects include:

- Completion of the North Concourse (absent the passenger processing facilities)
- Terminal Area Development Projects
  - Terminal B
  - Terminal A modifications
  - Roadway improvements

- Temporary Processing Center at Terminal C
- Demolition of Terminal C

Based on analysis by Public Works and Airport staff, and with careful consideration for the critical phasing and sequencing of these key projects, staff recommends a single design-build contract for the delivery of the five Terminal Area Development Projects. Staff additionally recommends that the North Concourse, currently under construction, be considered for assignment to the design-build contractor after award of the design-build contract.

The design-build process provides the following key benefits:

- Establishes a single point of oversight and accountability;
- Maximizes the coordination between construction and design, which is critical in a phased multi-project development program;
- Combines construction and design expertise, responsibility and accountability under one contract; and
- Supports the delivery timeline.

DESIGN BUILD PROCESS

The City Charter requires the City to competitively and publicly bid, and to award to the lowest responsible bidder, each construction contract for a public works project costing more than $100,000. The Charter expressly exempts certain types of public works contracts from these "bidding and award" requirements. On March 2, 2004, voters passed Measure D, which amended the City Charter to add a new exemption from the "bidding and award" requirements for "design-build" contracts meeting certain requirements.

Measure D defines "design-build" as "a procurement process in which both the design and construction of the project are procured from a single entity." The exemption from the low bid requirements for "design-build" contracts applies when the following two conditions exist: (1) the contract for the public works project will cost more than $5,000,000, and (2) the City Council finds that the "design-build" procurement process would save money or result in faster project completion. Measure D provides that, when these two conditions exist, the City may negotiate and award a "design build" contract without having to award the contract to the lowest responsible bidder.

Staff is making a preliminary recommendation to proceed with planning for design-build procurement for Terminal Area Development projects valued at approximately $280 million. Staff has completed preliminary analysis for completing these projects using traditional design-bid-build, construction management at risk, and design-build. Under traditional design-bid-build these projects would require about 60 months to complete. Using the construction management at risk project delivery method, these projects would require approximately 55 months to complete. Using design-build, the projects can be completed in approximately 52 months.

In addition to schedule savings, staff believes that the design-build method will save money in at least two areas. First, since the schedule is shorter, there will be a corresponding decrease in costs due to escalation, overhead, inspection, construction management and administration. Second, there should be significant cost reductions by avoiding architect/contractor conflicts that would increase owner costs.

In order to validate these preliminary findings, staff reviewed industry research relating to comparisions of project delivery methods. The most comprehensive study on this subject was completed in 1997 by researchers at Penn State University. The results of the study were published by the Construction Industry Institute and included a statistical analysis of 351 separate projects by both public and private owners.

The primary results of the study are presented as follows:

Factor	Design-Build vs. Design-Bid-Build	Design-Build vs. CM @ Risk	Level Of Certainty
Cost	6.1% Lower	4.5% Lower	99%
Construction Speed	12% Faster	7% Faster	89%
Delivery Speed	33.% Faster	23.5% Faster	88%

The study found that the design build method of project delivery saves time and money and the study results correlate well with the independent analysis prepared by staff. Based on the study results, the design build process could save as much as $16 million over traditional design-bid-build.

The process for awarding contracts for the design and construction of Public Works projects utilizing the design-build procurement process is set out in Chapter 14.07 of the Municipal Code (The Design Build Ordinance). Prior to issuance of a Request for Proposal (RFP) for a design-build contract, the Design Build Ordinance requires that Council make findings that the cost of the proposed design-build contract is likely to exceed $5,000,000 and that the design-build procurement process is likely to save money, or result in faster project completion than if the City used a procurement process involving its normal competitive bidding procedures. Upon approval of these findings, the Design-Build Ordinance also requires Council approval of the RFPs and the criteria and process by which the City shall select the design-build entity. At the time that it brings the RFPs to Council for approval, staff will also provide specific information regarding the advantages of using a design-build procurement process for the Terminal Area Development projects to support a finding by Council that the design-build procurement process will be likely to save money or result in faster project completion for the Terminal Area Development projects than if the City constructed the projects utilizing its normal, competitive bidding procedures.

Upon approval of the recommendation to proceed with planning for the design-build procurement process for the Terminal Area Development projects, staff will begin the next steps in the design-build process in accordance with Design Build Ordinance as follows:

Conduct Outreach with Stakeholder Group	December 2005 to February 2006
Advertise Prequalification Notice to Contractors	December 2005
Complete Prequalification Process	February 2006
Council approval of Program Level Plans, Selection Criteria and Request for Proposals	March 2006
Proposals Due and Evaluation of Proposals	May 2006
Council approval of ranking of Contractors	May 2006
Contract Negotiations	June to July 2006
Council approval of Contract and Notice to Proceed	August 2006
North Concourse Gates available for use	Mid-2008
Remaining phased improvements begin to come on line	Late 2009

Note: This timeline is viable only if the City utilizes design-build for development and construction of these projects.

E. Budget Appropriation Actions

In order to proceed expeditiously with several critical projects and the Measure D Design-Build process, staff recommends Council approval of the following four new appropriations:

1. Establish a Public Parking appropriation in the amount of $350,000. Fund from the existing Relocate Parking Control Buildings project appropriation. Purpose: To validate the financial feasibility of the garage, and to begin programming and basis of design should the project be determined to be feasible.

2. Use the existing appropriation for North Concourse Roadway Mitigation in the amount of $250,000 to program and phase the roadway projects in the program. In the future, a Terminal Area Roadway appropriation will be established to implement the roadway projects not included in the "Terminal Area Development" appropriation. (see below).

3. Establish a Terminal Area Development appropriation in the amount of $700,000. Fund from the existing Relocate Parking Control Buildings project appropriation. Purpose: To proceed with the measure D process to bring a design build contractor under contract to implement the Terminal A Improvements, Terminal B - Phase I, Temporary Terminal C Passenger Processing Facility, Demolition of Terminal C, and Terminal C Roadway projects. This appropriation will be increased through future budget actions to fully fund the construction of the projects, and to include a project contingency. The interrelationship of the projects that comprise this appropriation as well as the individual complexity of each creates the need for this contingency.

4. Establish a Westside Airfield Reconstruction appropriation in the amount of $95,000. Fund from the existing Relocate Parking Control Buildings project appropriation. Purpose: to initiate design of taxiway improvements at taxiways Victor, Delta, and Charlie to strengthen and upgrade the taxiways.

5. Use Ending Fund Balance in the amount of $350,000 to establish the Rental Car Garage Design appropriation so that design can begin in FY 2006-07.

F. Next Steps

Implementation of the conceptual revisions to the Airport Master Plan will require the following actions:

- Amendment of existing consultant design agreements for the North Concourse in early 2006 to support the re-design of this facility.
- Amendment of existing consultant agreements as necessary in early 2006 to support the Measure D Design-Build process, including development of a design-build RFP.
- Formal amendment of the Master Plan pursuant to Municipal Code Section 25.02.300 (Airport Master Plan Amendment Process). A "Major Amendment" packaging all the individual project revisions and updated demand forecasts, along with its required environmental analysis, is anticipated and would be presented to the Airport Commission, Planning Commission, and County Airport Land Use Commission prior to Council consideration in the spring of 2006.
- Implementation of the "Measure D" process as detailed earlier in this report to establish the design build contract for the Terminal Area Development project.
- Approval of a concept to establish a single Terminal Area Development Program Contingency to be used for the various projects that comprise the Terminal Area Development Program. Due to the interrelationship of the projects and the complexity of the program, it is necessary to have flexibility to apply funds against individual projects as the need arises.

OUTCOME

The recommended revisions to the Airport Master Plan, contingent upon subsequent Council approval of implementing actions, will allow for facility and customer service improvements to proceed in a more economically viable manner, and, at the same time, deliver these improvements sooner than planned.

Ultimate development parameters in the current Airport Master Plan, including a maximum of 40 air carrier gates, 1.7 million square feet of terminal building space, notable architectural treatment, incorporation of public art and LEED elements, accommodation of a future Airport People Mover connection to off-Airport rail transit lines, a maximum of 12,700 public parking spaces, future air cargo development on the northwest side of the airfield, and continued implementation of the Noise Control Program and completion of the Acoustical Treatment Program would be retained.

Essentially, these recommendations revise the financial and business aspects associated with implementation of the Airport Master Plan. The above-referenced community commitments remain in place.

PUBLIC OUTREACH

The potential development program revisions have been developed with extensive airline participation. These conceptual revisions were presented to the San Jose Convention & Visitors Bureau on October 28, to the Silicon Valley Leadership Group and San Jose Silicon Valley Chamber of Commerce on October 30, November 7 and November 8, and to the Airline Affairs Committee on November 9, 2005. All four stakeholder groups have indicated support for proceeding with implementation of these conceptual revisions. A vote by the majority of Airline representatives at the Airline Affairs Committee confirmed their support to move forward as proposed. The Airport Commission will review the proposed revisions at its public meeting on November 14, and staff will report out on the Commission's consideration at the Council meeting.

Presentation and discussion of the proposed gate management plan occurred at the Airport Commission meeting last April, and at a special community meeting held on April 20, 2005.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and Manager's Office, as well as the other departments that participated in the September workshop, which include Public Works, Transportation, Finance, and the Office of Economic Development.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Total Appn	2005-2006 Adopted Capital Budget (page)	Last Budget Action (Date, Ord. No.)
526	7999	Ending Fund Balance	$67,321,162	V-39	10/18/05 Ord. No. 27580
527	5473	Relocate Parking Control Buildings	$2,419,000	V-64	10/18/05 Ord. No. 27580

CEQA

Resolution Nos. 67380 and 71451, PP 05-215 & PP 05-062

WILLIAM F. SHERRY, A.A.E.
Director of Aviation

KATY ALLEN
Director, Public Works Department

LARRY D. LISENBEE
Budget Director

Attachments

WFS:CG